

**Financial Statements**  
**Community Mental Health**  
**For Central Michigan**

**Mt. Pleasant, Michigan**

**September 30, 2004**



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Community Mental Health for Central Michigan</b>	County <b>Isabella</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>12/10/04</b>	Date Accountant Report Submitted to State: <b>3/25/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>ROSLUND, PRESTAGE &amp; CO., PC, CPA'S</b>			
Street Address <b>308 GRATIOT AVENUE</b>		City <b>ALMA</b>	State <b>MI</b>
Accountant Signature <i>Al Pant - CPA</i>		ZIP <b>48801</b>	Date <b>3/25/05</b>

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## **INDEPENDENT AUDITOR'S REPORT**

Community Mental Health For Central Michigan  
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Community Mental Health For Central Michigan (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on page 26 – 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 10, 2004

**MANAGEMENT'S DISCUSSION and ANALYSIS**

COMMUNITY MENTAL HEALTH FOR CENTRAL MICHIGAN  
Financial Statements for the Fiscal Year Ended September 30, 2004  
Management's Discussion and Analysis

The management of Community Mental Health for Central Michigan (CMHCM) presents the following overview and analysis of financial activities during the past fiscal year. CMHCM was created as a Mental Health Authority on October 1, 2001 by the joint action of Boards of Commissioners for the Michigan counties of Clare, Gladwin, Isabella, Mecosta, Midland, and Osceola. CMHCM is the successor organization to two separate mental authorities, Midland-Gladwin Community Mental Health Services and Central Michigan Community Mental Health services whose assets and liabilities were wholly transferred to CMHCM.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of CMHCM's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. CMHCM, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons and funds for a self administered post retirement benefit program.

A crosswalk between government-wide and fund statements is included as Appendix A to this discussion. By comparing the two types of statements, the reader may better understand the long-term impact of the organization's immediate year decisions.

Comparison with Prior Year

The financial statements indicate that expenses increased at a greater rate than did revenues during the fiscal year.

Revenues 2004	61,415,275
Revenues 2003	<u>60,679,782</u>
Increase	735,493
Per Cent Increase	1.21%

Expenses 2004	62,117,512
Expenses 2003	<u>60,235,259</u>
Increase	1,882,253
Per Cent Increase	3.12%

This is the second year that this has occurred. The change in expenditure can be attributed to the following factors:

- I. Decrease in the personnel costs of 2.97%. This occurred because increases in wages of 4.05% and increase in fringe cost of 4.40% were offset by payment of the health insurance rate stabilization and payment for the early retirement incentive program, both of which took place in the previous fiscal year.

	2003	Increase (Decrease)	2004	Per Cent Change
<b>Salary and Wages</b>	13,286,597	538,684	13,825,281	4.05%
<b>Fringes</b>				
Social Security and Social Security Alternative	835,524	28,780	864,304	3.44%
Medicare	187,483	6,430	193,913	3.43%
Employee Retirement	1,241,516	69,385	1,310,901	5.59%
Unemployment	44,666	(13,996)	30,670	-31.33%
Health Insurance	2,254,793	150,995	2,405,788	6.70%
Disability Insurance	119,453	18,066	137,519	15.12%
Life Insurance	33,503	5,294	38,797	15.80%
Worker's Compensation	68,113	(12,094)	56,019	-17.76%
Other Fringe Benefits	11,264	4,044	15,308	35.90%
<b>Total Fringes</b>	<u>4,796,315</u>	<u>256,904</u>	<u>5,053,219</u>	5.36%
<b>Total Personnel Cost Before One Time Items</b>	18,082,912	795,588	18,878,500	4.40%
<b>One Time Personnel Expenses</b>				
Employee Retirement Window	645,563	(645,563)		
Medical Insurance - Rate Stabilization	<u>727,200</u>	<u>(727,200)</u>		
<b>Total Personnel Costs</b>	19,455,675	(577,175)	18,878,500	-2.97%

2. Increase in Operating Expenditures of 5.79%. These costs were primarily a result of an increase in the rates paid to subcontractors for residential services and skill building/supported employment services.

#### Strength of Financial Position

The chart below shows changes in the agency's financial position. Three large changes are notable:

1. A reserve had been accumulated for the purpose of providing medical insurance benefits to retirees. This reserve has been transferred to the Municipal Employee's Retirement System (MERS) which will now administer these funds as an adjunct to the agency's retirement program.
2. The restricted fund balance at the end of 2003 included \$2,340,797 in Medicaid funds carried forward from 2002. At the end of 2004 there are no Medicaid carry forward funds. The unspent Medicaid of \$241,614 has been added to the Medicaid Internal Service Funds.



3. The Substance Abuse Medicaid fund contained \$84,279 which was being held on behalf of other Community Mental Health Agencies who had assumed responsibility for portions of the 30 county area previously served by CMHCM. These funds have been disbursed to the other agencies. The remainder of the funds are available for either substance or mental health services in 2005 and subsequent fiscal years.

<b>Risk Reserves</b>	<b>Balance at 9/30/2003</b>	<b>Increase (Decrease)</b>	<b>Balance at 9/30/2004</b>
Internal Service Funds			
Medicaid	1,637,569	239,629	1,877,198
Substance Abuse	121,152	(60,158)	60,994
General Fund	448,563	5,740	454,303
Retiree Medical Insurance	1,908,005	(1,908,005)	0
Total Internal Service Funds	4,115,289	(1,722,794)	2,392,495
General Fund			
Fund Balance			
Restricted	3,955,524	(2,114,578)	1,840,946
Unrestricted	5,420,987	1,036,048	6,457,035
Total Fund Balance	9,376,511	(1,078,530)	8,297,981
Funds Available for Risk Management			
Internal Service Funds	2,207,284	185,211	2,392,495
Unrestricted Fund Balance	5,420,987	1,036,048	6,457,035
	7,628,271	1,221,259	8,849,530
Total Expenses	60,235,259	1,882,253	62,117,512
Days of Operation	46	6	52

#### About the Future:

Funding by the State of Michigan has not improved due to continuing revenue shortfall of several hundred million dollars. The State is obligated by its constitution to have a balanced budget and there is no discernable political activity focused on increasing tax rates; therefore expenditure reductions are the only option. The beginning of fiscal 2005 finds CMHCM with a deficit budget due to continued rising costs and negligible increases in Medicaid and General Fund revenues. Management believes that there are efficiencies which can be realized which will reduce costs without reducing services and has measures underway to identify and implement cost reductions.

An additional question is the future of State/Federal revenues in years after 2005. During fiscal 2004 all Community Mental Health programs participated in gathering service data upon which the state will reallocate Medicaid for fiscal 2006. We regard the outcome of this rebasing as relatively unpredictable both in terms of the amount of Medicaid revenue to be allocated and in the date when the computations will be completed.

Appendix A  
Crosswalk: Government-wide Statement of Assets and Funds Statements

	Government Wide	Governmental Funds	Proprietary Fund (ISF)	General Fixed Assets
<b>Assets</b>				
Current Assets				
Cash & Cash Equivalents	10,173,095	10,173,095		
Accounts Receivable, Net	827,662	827,662		
Interest receivable	104,802	104,802		
Due from other Governmental Units	204,200	204,200		
Prepaid Items	979,167	979,167		
Cash and investments – Restricted		<u>861,779</u>		
Total Current Assets	12,288,926	13,150,705		
Non-current Assets				
Cash and Cash equivalents – restricted	3,012,660		<u>2,150,881</u>	
Due from Other Funds			<u>241,614</u>	
Capital assets - depreciable, net	1,055,848			1,055,848
Capital assets, land	230,000			230,000
Total Non-current Assets	4,298,508	0	2,392,495	1,285,848
<b>Total Assets</b>	<b>16,587,434</b>	<b>13,150,705</b>	<b>2,392,495</b>	<b>1,285,848</b>
<b>Liabilities</b>				
Current Liabilities				
Accounts payable	3,715,967	3,715,967		
Accrued Payroll	682,277	682,277		
Due to other Funds		241,614		
Due to other governmental units	212,866	212,866		
Total Current Liabilities	<u>4,611,110</u>	4,852,724		
Non-current liabilities				
Compensated absences	<u>861,779</u>			
Total Liabilities	<u>5,472,889</u>			
<b>Net Assets</b>	<b>11,114,545</b>			
<b>Fund Balances</b>				
Invested in capital assets	1,285,848			1,285,848
Reserved for Medicaid savings				
Reserved for compensated absences		861,779		
Reserved for post-employment benefits				
Internal Service Fund	2,392,495		2,392,495	
Reserved for prepaid items		979,167		
Unreserved	7,436,202	6,457,035		
Total Fund Balance	11,114,545	8,297,981	2,392,495	1,285,848
<b>Total Liabilities and Fund Balance</b>	<b>16,587,434</b>	<b>13,150,705</b>	<b>2,392,495</b>	<b>1,285,848</b>

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Community Mental Health For Central Michigan  
Statement Of Net Assets  
September 30, 2004 and 2003

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$10,173,095	\$11,462,481
Accounts receivable, net	827,662	609,471
Interest receivable	104,802	86,940
Due from other governmental units	204,200	283,146
Prepaid items	979,167	847,610
Total current assets	<u>12,288,926</u>	<u>13,289,648</u>
Noncurrent assets		
Cash and cash equivalents - restricted	2,998,116	4,882,407
Interest receivable - restricted	14,544	-
Capital assets - depreciable, net	1,055,848	1,113,643
Capital assets - land	230,000	230,000
Total noncurrent assets	<u>4,298,508</u>	<u>6,226,050</u>
Total assets	<u>16,587,434</u>	<u>19,515,698</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	3,715,967	3,428,887
Accrued wages and other payroll liabilities	682,277	917,991
Due to other governmental units	212,866	333,376
Total current liabilities	<u>4,611,110</u>	<u>4,680,254</u>
Noncurrent liabilities		
Compensated absences	861,779	767,117
Total liabilities	<u>5,472,889</u>	<u>5,447,371</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,285,848	1,343,643
Reserved for Medicaid savings	-	2,340,797
Reserved for post employment benefits	-	1,908,005
Reserved for risk management	2,392,495	2,207,285
Unreserved	7,436,202	6,268,597
Total net assets	<u>\$11,114,545</u>	<u>\$14,068,327</u>

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Statement of Activities  
For The Years Ended September 30, 2004 and 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$64,420,382</u>	<u>48,794,431</u>	<u>12,403,101</u>	(\$3,222,850)	(\$36,600)
General revenues					
Unrestricted investment earnings				217,743	246,127
Restricted investment earnings				<u>51,325</u>	<u>60,704</u>
Total general revenues and contributions				<u>269,068</u>	<u>306,831</u>
Change in net assets				(2,953,782)	270,231
Net assets - beginning of year				<u>14,068,327</u>	<u>13,798,096</u>
Net assets - end of year				<u>\$11,114,545</u>	<u>\$14,068,327</u>

The Notes to the Financial Statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

Community Mental Health For Central Michigan  
Balance Sheet  
Governmental Funds  
September 30, 2004 and 2003

	General Fund	
	2004	2003
<b>Assets</b>		
Cash and cash equivalents	\$10,173,095	\$11,462,481
Accounts receivable, net	827,662	609,471
Interest receivable	104,802	86,940
Due from other governmental units	204,200	283,146
Prepaid items	979,167	847,610
Cash and investments - Restricted	861,779	767,117
Total Assets	<u>\$13,150,705</u>	<u>\$14,056,765</u>
<b>Liabilities</b>		
Accounts payable	\$3,715,967	\$3,428,887
Accrued wages and other payroll liabilities	682,277	917,991
Due to other funds	241,614	-
Due to other governmental units	212,866	333,376
Total liabilities	<u>4,852,724</u>	<u>4,680,254</u>
<b>Fund balances</b>		
Reserved for prepaid items	979,167	847,610
Reserved for Medicaid savings	-	2,340,797
Reserved for compensated absences	861,779	767,117
Unreserved	6,457,035	5,420,987
Total fund balances	<u>8,297,981</u>	<u>9,376,511</u>
Total liabilities and fund balances	<u>\$13,150,705</u>	<u>\$14,056,765</u>

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Reconciliation Of Fund Balances On The Balance Sheet For Governmental Funds  
To Net Assets Of Governmental Activities On The Statement Of Net Assets  
For The Year Ended September 30, 2004

Total fund balance - governmental funds	\$8,297,981
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	3,212,924
Deduct: accumulated depreciation	(1,927,076)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	2,392,495
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Compensated absences	(861,779)
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Net assets of governmental activities	<u>\$11,114,545</u>
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The Notes to the Financial Statements are an integral part of this statement.



Community Mental Health For Central Michigan  
Statement Of Revenues, Expenditures And Changes In Fund Balances  
Governmental Funds  
For The Years Ended September 30, 2004 and 2003

Revenues	General Fund	
	2004	2003
State grants		
Department of community health contract	\$9,155,896	\$8,039,162
Substance abuse	607,392	553,242
Title XX	19,342	19,342
Other state revenues	41,714	41,333
Total state grants	9,824,344	8,653,079
Federal grants	857,957	804,231
Contributions - local units		
County appropriations	1,175,239	1,212,253
Charges for services		
Medicaid - DCH contract	45,850,744	46,855,819
Medicaid - other	486,935	372,044
Northern espresso program	83,631	72,467
Client and third party pay	805,504	693,914
Inter-county services	630,058	652,703
Other earned contract revenue	937,559	915,041
Total charges for services	48,794,431	49,561,988
Interest and rents		
Interest	217,743	246,127
Other revenue	545,561	202,104
Total revenues	61,415,275	60,679,782

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Statement Of Revenues, Expenditures And Changes In Fund Balances  
Governmental Funds  
For The Years Ended September 30, 2004 and 2003

Expenditures	General Fund	
	2004	2003
Health & Welfare - Mental Health		
Current:		
Personnel costs	\$18,878,500	\$19,455,675
Operating expenditures	43,017,026	40,662,449
Capital outlay	221,986	117,135
Total expenditures	62,117,512	60,235,259
Revenues over (under) expenditures	(702,237)	444,523
Other Financing Sources (uses)		
Operating transfer in (out)	(376,293)	(1,874,293)
Excess of revenues and other sources over (under) expenditures and other uses	(1,078,530)	(1,429,770)
Fund balance, beginning of year	9,376,511	10,806,281
Fund balance, end of year	\$8,297,981	\$9,376,511

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Year Ended September 30, 2004

Net change in fund balances - total governmental funds	(\$1,078,530)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	221,986
Deduct: depreciation expense	(265,614)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	(1,722,795)
Sale of capital asset proceeds are recognized as revenues in the governmental funds, but only the gain or loss is recognized in the statement of activities	(14,167)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(94,662)</u>
Change in net assets of governmental activities	<u><u>(\$2,953,782)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Statement Of Net Assets  
Proprietary Funds  
September 30, 2004 and 2003

	Risk Management	Retiree Medical Insurance	Governmental Activities Internal Service Funds 2004	2003
Assets				
Cash and cash equivalents	\$2,136,337	-	\$2,136,337	\$4,115,290
Accrued interest	14,544	-	14,544	-
Due from other funds	241,614	-	241,614	-
Total assets	<u>\$2,392,495</u>	<u>-</u>	<u>\$2,392,495</u>	<u>\$4,115,290</u>
Liabilities	-	-	-	-
Net Assets				
Reserved	<u>\$2,392,495</u>	<u>-</u>	<u>\$2,392,495</u>	<u>\$4,115,290</u>

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Statement Of Revenues, Expenses And Changes In Fund Net Assets  
Proprietary Funds  
For The Years Ended September 30, 2004 and 2003

	<u>Risk Management</u>	<u>Retiree Medical Insurance</u>	<u>Governmental Activities Internal Service Funds 2004</u>	<u>2003</u>
Operating expenses				
Post employment benefits	-	\$97,473	\$97,473	-
Operating loss	-	(97,473)	(97,473)	-
Non-operating revenues (expense)				
Interest income	\$27,876	23,449	51,325	\$60,704
Income before transfers and other contributions	27,876	(74,024)	(46,148)	60,704
Transfers				
Operating transfers in - other funds	241,613	134,680	376,293	1,874,293
Operating transfers (out) - other entities	(84,279)	(1,968,661)	(2,052,940)	-
Total transfers	157,334	(1,833,981)	(1,676,647)	1,874,293
Change in net assets	185,210	(1,908,005)	(1,722,795)	1,934,997
Net assets, beginning of year	2,207,285	1,908,005	4,115,290	2,180,293
Net assets, end of year	<u>\$2,392,495</u>	<u>\$ -</u>	<u>\$2,392,495</u>	<u>\$4,115,290</u>

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Statement Of Cash Flows  
Proprietary Funds  
For The Years Ended September 30, 2004 and 2003

	<u>Risk Management</u>	<u>Retiree Medical Insurance</u>	<u>Governmental Activities Internal Service Funds 2004</u>	<u>2003</u>
Cash flows from operating activities				
Cash payments of post employment benefits	-	(\$97,473)	(\$97,473)	-
Cash flows from noncapital financial activities				
Operating transfers in	\$0	134,680	134,680	\$1,874,293
Operating transfers out	<u>(84,279)</u>	<u>(1,968,661)</u>	<u>(2,052,940)</u>	<u>-</u>
Net cash provided (used) for noncapital financial activities	(84,279)	(1,833,981)	(1,918,260)	1,874,293
Cash flows from investing activities				
Proceeds from interest earnings	<u>13,331</u>	<u>23,449</u>	<u>36,780</u>	<u>60,704</u>
Net increase (decrease) in cash	(70,948)	(1,908,005)	(1,978,953)	1,934,997
Cash and cash equivalents, beginning of year	<u>2,207,285</u>	<u>1,908,005</u>	<u>4,115,290</u>	<u>2,180,293</u>
Cash and cash equivalents, end of year	<u><u>\$2,136,337</u></u>	<u><u>\$ -</u></u>	<u><u>\$2,136,337</u></u>	<u><u>\$4,115,290</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income (loss)	<u>-</u>	<u>\$ (97,473)</u>	<u>\$ (97,473)</u>	<u>-</u>
Net cash used by operating activities	<u><u>-</u></u>	<u><u>\$ (97,473)</u></u>	<u><u>\$ (97,473)</u></u>	<u><u>-</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Community Mental Health For Central Michigan (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The significant changes included in Statement No. 34 include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2001.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Isabella, Mecosta, Osceola, Clare, Midland and Gladwin Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.



Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

The Authority reports the following major governmental and proprietary funds:

**Governmental Funds - General Fund** – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

**Proprietary Funds - Internal Service Fund** – These funds represent amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Interest receivable represents amounts due the Authority for certificates of deposit that have not yet matured.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	3-7
Computers	2-5
Automobiles	5
Buildings and Improvements	7-30
Land	Not Applicable – Not Depreciated

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Compensated Absences**

The Authority allows employees to carryover into the following year, any unused, paid time off, up to a maximum of 280 hours. All regular full time employees accrue annual leave on a per-pay basis. Amounts accrued vary depending on the employee's length of service with the Authority. Upon termination of employment, annual leave balances are paid at the current rate of pay. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. There is no liability for unpaid sick leave since the Authority does not have a policy to pay this amount upon termination of employment.

**Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability and risk management. These restricted assets are held in separate cash accounts with local financial institutions.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post employment benefits are examples of the latter.

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. Formal budgetary integration is employed as a management control device during the year. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority did not incur expenditures in excess of the amounts appropriated.

**3. DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

At year end, the carrying amount of deposits for the Authority was \$13,171,211, and the bank balance was \$13,687,280. Of the bank balance, \$400,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

	2004	2003
Cash and Cash Equivalents	\$10,173,095	\$11,462,481
Cash and Cash Equivalents – Restricted	2,998,116	4,882,407
Total	\$13,171,211	\$16,344,888

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Interfund Receivables and Payables**

The amount of interfund receivables and payables at September 30, are as follows:

<b>Fund</b>	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General Fund	-	\$241,614
Internal Service Fund	\$241,614	-
Totals	\$241,614	\$241,614

**Interfund Transfers**

<b>Fund</b>	<b>Transfer From Other Funds</b>	<b>Transfer To Other Funds</b>
General Fund	-	\$376,293
Internal Service Fund	\$376,293	-
Totals	\$376,293	\$376,293

**Due from Other Governmental Units**

As of September 30, this receivable consisted of the following:

	<b>2004</b>	<b>2003</b>
Michigan Department of Community Health – OBRA Grant	\$102,580	\$103,554
Michigan Department of Community Health – Juvenile Justice Grant	23,378	11,957
Midland County Intermediate School District – Early On Grant	27,436	36,257
County Appropriation Receivable	-	77,979
Other Governmental Units	50,806	53,399
Total	\$204,200	\$283,146



Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Changes in Fixed Assets**

A summary of changes in capital assets is as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Equipment and Furnishings	\$880,079	\$148,788	(\$67,987)	\$960,880
Computers	576,224	45,833	-	622,057
Automobiles	649,084	19,200	(21,700)	646,584
Buildings and Improvements	745,238	8,165	-	753,403
Land	230,000	-	-	230,000
Sub-totals	3,080,625	221,986	(89,687)	3,212,924
Accumulated Depreciation	(1,736,982)	(265,614)	75,520	(1,927,076)
Totals	\$1,343,643	\$(43,628)	\$14,167	\$1,285,848

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

**Due to Other Governmental Units**

As of September 30, this liability consists of the following:

	<b>2004</b>	<b>2003</b>
Michigan Department of Community Health – Risk Authorization Reduction		\$23,356
Michigan Department of Community Health - State Institutions	\$212,866	310,020
Total	\$212,866	\$333,376

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Long Term Liabilities**

The changes in long term liabilities during the 2004 fiscal year are as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>
Compensated Absences	\$767,117	\$94,662	\$-	\$861,779

**Leases**

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the account groups.

At September 30, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2005	\$1,371,406
2006	316,974
2007	202,601
2008	173,379
2009	155,339
2010 - 2014	258,789

**4. OTHER INFORMATION**

**Compliance Audits**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Risk Management**

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability and between \$10,000 and \$200,000,000 for property and crime.

Internal Service Funds

The Authority has established 3 Internal Service Funds to cover the risk of overspending the Managed Care Specialty Services Program contract. This contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from the Internal Service Funds will occur when, in any one fiscal year, the Authority finds it necessary to expend more funds to carry out the contract requirements than revenue provided by the contract.

Additionally, the Authority has established an Internal Service Fund to account for health insurance benefits provided to retirees. Additional information related to this benefit is described on page 23 of this report.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Employee Retirement and Benefit Systems**

**Plan Description**

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the Authority's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2003. The Authority's payroll for the employees covered by the system for the year ended December 31, 2003 was \$12,243,522.

As of December 31, 2003, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	51
Active plan participants	321
Vested former members	76
Total	448

**Funding Policy**

If a member leaves the Authority or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Community Mental Health For Central Michigan  
Notes To The Financial Statements

**Funding Status and Progress**

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2003, the assets were less than the pension benefit obligation by \$3,468,815, determined as follows:

<b>GASB 25 Information</b>	
<b>Actuarial Accrued Liability</b>	
Retirees and beneficiaries currently receiving benefits	\$7,989,142
Terminated employees not yet receiving benefits	2,071,779
Non-vested terminated employees	22,874
Current Employees:	
Accumulated employee contributions including allocated investment income	1,146,959
Employer financed	18,239,844
Total actuarial accrued liability	\$29,470,598
Net assets available for benefits at actuarial value (market = \$23,742,430)	26,001,783
Unfunded actuarial accrued liability	\$3,468,815
<b>GASB 27 Information</b>	
Fiscal Year Beginning	October 1, 2005
Annual Required Contribution (ARC)	\$1,356,576
Amortization factor used – under-funded liabilities (30 years)	.053632

Community Mental Health For Central Michigan  
Notes To The Financial Statements

Three year trend information follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	UAAL as a Percentage of Covered Payroll
12-31-01	21,091,451	22,299,951	(1,208,500)	95%	10%
12-31-02	22,170,109	25,006,311	(2,836,202)	89%	24%
12-31-03	26,001,783	29,470,598	(3,468,815)	88%	28%

### Health Insurance Benefits

In addition to providing pension benefits through MERS, the Authority, in accordance with agreements with MERS, provides post employment health insurance benefits to certain employees.

A defined benefit Health Savings Program has been established with MERS for employees that retire on or before October 1, 2004. As of September 30, 2004, there were 29 retired individuals eligible to receive benefits under this program. The retirees are required to pay for a portion of their health care costs based on their age and years of service at retirement. The Authority also pays a portion of these costs, with a maximum per retiree benefit of \$400 per month.

A defined contribution Health Savings Program has also been established with MERS for certain employees who are not eligible to receive benefits under the above mentioned defined benefit Health Savings Program. Employees of the Authority become eligible for this benefit if they work two bi-weekly pay periods per month with at least 60 hours worked for each of these pay periods. The Authority will contribute a maximum of \$60 per month to MERS for each eligible employee who receives this fringe benefit.

**REQUIRED SUPPLEMENTAL INFORMATION**

Community Mental Health For Central Michigan  
Statement Of Revenues, Expenditures And Changes  
In Fund Balance - Budget And Actual  
General Fund  
For The Year Ended September 30, 2004

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
<b>Revenues</b>				
State grants				
Department of community health contract	\$8,001,935	\$9,125,000	\$9,155,896	\$30,896
Substance abuse	550,000	600,000	607,392	7,392
Title XX	19,342	19,342	19,342	-
Other state revenues	41,400	41,400	41,714	314
Total state grants	8,612,677	9,785,742	9,824,344	38,602
Federal grants	954,946	940,263	857,957	(82,306)
Contributions - local units				
County appropriations	1,112,901	1,175,239	1,175,239	-
Charges for services				
Medicaid - DCH contract	46,804,195	46,454,195	45,850,744	(603,451)
Medicaid - other	369,000	688,739	486,935	(201,804)
Northern expresso program	70,000	70,000	83,631	13,631
Client and third party pay	710,000	740,000	805,504	65,504
Inter-county services	475,000	475,000	630,058	155,058
Other earned contract revenue	898,765	981,191	937,559	(43,632)
Total charges for services	49,326,960	49,409,125	48,794,431	(614,694)
Interest and rents				
Interest	230,000	230,000	217,743	(12,257)
Other revenue	27,570	33,857	545,561	511,704
Total revenues	60,265,054	61,574,226	61,415,275	(158,951)

The Notes to the Financial Statements are an integral part of this statement.



Community Mental Health For Central Michigan  
Statement Of Revenues, Expenditures And Changes  
In Fund Balance - Budget And Actual  
General Fund  
For The Year Ended September 30, 2004

Expenditures	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$19,078,403	\$19,253,416	\$18,878,500	\$374,916
Operating expenditures	44,403,536	44,570,346	43,017,026	1,553,320
Capital outlay	276,910	276,910	221,986	54,924
Total expenditures	63,758,849	64,100,672	62,117,512	1,983,160
Revenues over (under) expenditures	(3,493,795)	(2,526,446)	(702,237)	1,824,209
Other Financing Sources (uses)				
Operating transfer in (out)	(134,679)	(136,128)	(376,293)	(240,165)
Excess of revenues and other sources over (under) expenditures and other uses	(3,628,474)	(2,662,574)	(1,078,530)	1,584,044
Fund balance, beginning of year	9,376,511	9,376,511	9,376,511	-
Fund balance, end of year	<u>\$5,748,037</u>	<u>\$6,713,937</u>	<u>\$8,297,981</u>	<u>\$1,584,044</u>

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Community Mental Health For Central Michigan  
Mt. Pleasant, Michigan

We have audited the basic financial statements of the Community Mental Health For Central Michigan as of and for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Community Mental Health For Central Michigan's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Community Mental Health For Central Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Community Mental Health For Central Michigan, in a separate letter dated December 10, 2004.

This report is intended for the information of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co., P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 10, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Community Mental Health For Central Michigan  
Mt. Pleasant, Michigan

**Compliance**

We have audited the compliance of the Community Mental Health For Central Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal programs for the year ended September 30, 2004. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion, the Community Mental Health For Central Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

## Internal Control Over Compliance

The management of the Community Mental Health For Central Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co. P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 10, 2004

**COMMUNITY MENTAL HEALTH FOR CENTRAL MICHIGAN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue At 9-30-04	Current Year Adjustments	GPFS Federal Revenue Recognized	GPFS Page
<b>Department Of Health And Human Services</b>									
Passed Through The Michigan Department of Community Health									
Block Grants For Community Mental Health Services	93.958	03 B1 MI CMHS-02	\$35,000	\$31,702	\$35,000	\$3,298	-	\$35,000	
Block Grants For Community Mental Health Services	93.958	03 B1 MI CMHS-02	50,000	23,034	46,412	23,378	-	46,412	
Block Grants For Community Mental Health Services	93.958	03 B1 MI CMHS-02	17,471	17,471	17,471	-	-	17,471	
Block Grants For Community Mental Health Services	93.958	04 B1 MI CMHS	27,249	4,918	7,695	2,777	-	7,695	
Block Grants For Community Mental Health Services	93.958	04 B1 MI CMHS	5,348	4,580	4,580	-	-	4,580	
Block Grants For Community Mental Health Services	93.958	04 B1 MI CMHS	75,000	31,003	35,803	4,800	-	35,803	
Block Grants For Community Mental Health Services	93.958	04 B1 MI CMHS	10,060	896	5,868	4,972	-	5,868	
Block Grants For Community Mental Health Services	93.958	04 B1 MI CMHS	50,723	50,723	50,723	-	-	50,723	
			164,327	164,327	203,552	39,225	-	203,552	
<b>Passed Through The Michigan Department of Community Health Medical Assistance Program</b>	93.778	20031634	n/a	348,369	450,949	102,580	-	450,949	
<b>Passed Through The State Of Michigan Family Independence Agency Promoting Safe and Stable Families</b>	93.556	CTFDS 02-56001	n/a	4,875	4,875	-	-	4,875	
<b>Passed Through The State Of Michigan Family Independence Agency Temporary Assistance for Needy Families Temporary Assistance for Needy Families</b>	93.558 93.558	WRAP 01-56001 CAN 02-26001-2	40,000 158,581	38,163 142,941 181,104	40,000 158,581 198,581	1,837 15,640 17,477	-	40,000 158,581 198,581	
				698,675	857,957	159,282	-	857,957	
<b>Total - Department Of Health And Human Services</b>				<u>\$698,675</u>	<u>\$857,957</u>	<u>\$159,282</u>	<u>-</u>	<u>\$857,957</u>	<u>5</u>
<b>Grand Totals</b>									

The Notes to the Financial Statements are an integral part of this statement.

Community Mental Health For Central Michigan  
Schedule Of Findings And Questioned Costs  
Year Ended September 30, 2004

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**A. SUMMARY OF AUDIT RESULTS**

The auditor's report expresses an unqualified opinion on the basic financial statements of the Community Mental Health For Central Michigan.

There were no reportable conditions disclosed as a result of the audit of the basic financial statements.

No instances of noncompliance material to the basic financial statements of the Community Mental Health For Central Michigan were disclosed during the audit.

There were no reportable conditions disclosed during the audit of the major federal award programs.

The auditor's report on compliance for the major federal award programs for the Community Mental Health For Central Michigan expresses an unqualified opinion.

Audit findings relative to the major federal award programs for the Community Mental Health For Central Michigan are reported in Part C of this report.

The programs tested as major programs are the following:

- Block Grants for Community Mental Health Services – CFDA # 93.958
- Temporary Assistance for Needy Families – CFDA # 93.558

The threshold for distinguishing Types A and B programs was \$300,000.

The Board was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAMS AUDIT.**

None.



## MANAGEMENT LETTER

Board of Directors  
Community Mental Health for Central Michigan  
Mt. Pleasant, Michigan

In planning and performing our audit of the financial statements for Community Mental Health for Central Michigan for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 10, 2004, on the financial statements of Community Mental Health for Central Michigan.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Co., P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 10, 2004



### **STATUS OF PRIOR YEAR RECOMMENDATIONS**

During the audit we were pleased to note that all of the recommendations identified in the management letter from the prior year had been reviewed and implemented. We commend you on your efforts to strengthen internal controls and we believe that by implementing steps noted in the management letter, the Community Mental Health for Central Michigan will reap the benefits of greater operating efficiency.

### **CURRENT YEAR COMMENTS:**

#### **Timeliness of Billings**

During our audit, we have found that the Authority has not timely billed Medicare or Blue Cross Blue Shield for services provided due to complications with the electronic billing procedures required by these two payors.

Because of the substantial amount of services provided by the Authority where reimbursement is due from these providers, this issue needs to be addressed as soon as possible. At a minimum, billings should be submitted to these payers no later than 30 days after the service date.

#### **Perform a Fraud Risk Assessment**

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

**Perform a Fraud Risk Assessment (continued)**

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Authority perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers.

**Perform a Fraud Risk Assessment (continued)**

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many companies to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

**Perform a Fraud Risk Assessment (continued)**

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.